

# Fixed Income ESG Futures

## The adoption of ESG principles in fixed income is on an accelerating growth trajectory.

The green and sustainable bond market continues to exhibit exponential growth in issued amounts. This market will see new participants in 2021, such as the EU Commission and several other European governments and agencies. Looking at the ETF market as a proxy, 2019 and 2020 saw a significant growth of assets under management, which focused in IG corporate. In the US, the greatest winners of 2020 were USD IG and hard currency emerging markets, which saw their AUM soar.

Eurex aims to become the global venue for listed ESG derivatives for EUR-denominated products. Utilizing these products, asset managers can best adapt their strategies to comply with ESG mandates while generating additional alpha thanks to the synthetic exposure to ESG fixed income securities. Listed ESG derivatives offer the market an efficient and cost-effective solution to optimally manage the risk and benchmark exposure of ESG-driven portfolios.

To date, only few of the investment themes in the fixed income ESG space can be leveraged to offer a tradable standardized contract. Fixed income ESG futures on bond indices offer a standardized and reliable solution to gain exposure to fixed income ESG market segments.

- Standardized exchange traded contract
- Easy and well-established structure widely utilized in the equity index futures market
- Total return price indices, factor in the re-investment of paid coupons
- Centrally cleared solution and transparent prices
- Cost effective in terms of margin savings
- Bloomberg MSCI index product suite, aligned with index benchmarks that clients are familiar with.

### 1. Futures on the Bloomberg MSCI Euro Corporate SRI Index

#### Index methodology

**Investment Grade**, EUR-denominated **corporate bond** universe satisfying the below criteria:

- At least 1 year until final maturity
- EUR-denominated
- Investment grade (rating BBB or higher)
- Minimum amount outstanding of EUR 300 million
- Fixed Coupon

#### Exclusions

**MSCI Business Involvement Screening:** excludes issuers involved in business lines/activities as per the standard Bloomberg MSCI SRI screen:

- Alcohol, gambling, nuclear power, civilian firearms, tobacco, adult entertainment, genetically modified organisms, military weapons, thermal coal, unconventional oil and gas.
- **MSCI ESG Controversy Score:** excludes issuers with a red (0) score – i.e. companies involved in a current, major ESG problem.

## 2. Futures on the Bloomberg MSCI Global Green Bond Index

### Index methodology

**Investment Grade** bonds belonging to treasury, corporate, government-related and securitized sectors and satisfying:

- **No maturity restrictions**
- **Fixed Coupon**
- **EUR (69%), USD (20%),** CAD (3%), SEK (2.5%), GBP (2%), AUD (2%), other (1.5%)
- Minimum amount outstanding of EUR 300 million
- Investment grade (rating BBB or higher)

### Green bond screen

Securities are independently evaluated by **MSCI ESG Research** along four dimensions to determine whether they should be classified as a **green bond**:

- Stated **use of proceeds** indicated in the bond issuance prospectus
- Process for **management of proceeds**
- Process for green **project evaluation** and **selection**
- Commitment to **ongoing reporting** of the environmental performance of the use of proceeds

Both **self-labelled** green bonds and **unlabelled bonds** will be evaluated using these criteria for potential index inclusion (even if not marketed as green).

## KEY BENEFITS

### Liquidity and cash management

- When large fund inflows occur, it can be most efficient to take exposure to the benchmark index returns **utilizing the available cash** via futures. This exposure can then be scaled down as individual bonds are sourced.
- Employ available un-invested cash to **get unfunded exposure to market returns**.

### Hedging purposes

- For a fund pursuing an active selection of bonds aimed to outperform the market, futures can be used to temporarily **reduce market exposure** of a portfolio.
- Futures remove the need to pay **bid/offer spreads** on bonds or run the **risk** of not being able to **buy back securities** when the need to reduce risk is over.

### Portfolio overlay

- **Futures** can be used to **increase or reduce** market exposure in a portfolio, relative to its actual funded amount.
- **Synthetic replication** of an asset class, market or factor exposure.

## BLOCK TRADE SERVICE

**Eurex Fixed Income ESG Futures can also be traded outside the order book on a bilateral basis, and subsequently booked to Eurex Clearing through the use of our Eurex T7 Entry Service.**

- Members can enter bilaterally agreed off-book transactions into the trading and clearing system. Registered off-book trades are then automatically cleared like regular exchange transactions.
- The Block Trade Entry facility is fully electronic and integrated into members' processes (the exchange defines a minimum number of contracts for a Block Trade – see specification below).

## BASIS TRADING

- Basis trading can also be facilitated by the Exchange for Physicals-Index (EFP-I) functionality. An EFP-I against an ETF or a basket of bonds (the "Reference Instrument") can be entered, subject to certain criteria regarding notional size and correlation.
- Furthermore, Fixed Income ESG Futures can themselves be used as a "Reference Instrument" for an EFP-Fin trade against a government bond futures trade.
- There are no minimum entry size restrictions for EFP. Regulatory LIS limits may still apply.

Key Index Statistics*		
Index	Euro Corporate SRI Index	Global Green Bond Index
Components	2,996	794
Market value	EUR 2.097 tn	EUR 764.08 bn
Amount outstanding	EUR 2.208 tn	EUR 833.79 bn
Average coupon	1.39	1.31
Average maturity	5.24	8.78
Average duration	4.93	7.77
Rating	A3 / BAA1	AA3 / A1

\* Values sourced from Bloomberg Finance LLP at the time of publication



## Contract specifications

Eurex Fixed Income ESG Index Futures		
Contract standard	Bloomberg MSCI Euro Corporate SRI Total Return Index Value Unhedged EUR	Bloomberg MSCI Global Green Bond Total Return Index Value Unhedged EUR
Eurex product code	FECX	FGGI
Contract value	EUR 1,000 per index point	
Price Quotation: tick size / tick value	In points with two decimal places / 0.01 Points = EUR 10	
Trading hours	8:00 a.m. to 7:00 p.m. CET. On the last trading day, close of trading is at 5:15 pm CET.	
Contract months	The three nearest quarterly months of the March, June, September, and December cycle.	
Last trading day/ final settlement day	Third Friday of each maturity month if this is an exchange day; otherwise the exchange day immediately preceding that day; close of trading in the maturing futures on the last trading day is 17:15 CET. Final settlement day is the exchange day immediately following the last trading day.	
Final settlement price	The final settlement price is established by Eurex on the final settlement day of the contract and is based on the closing price of the index (total return, EUR) on the last trading day.	
Daily settlement price	Determined from the volume weighted average of all transactions during the minute before 05:15 pm CET (reference point), provided that more than 5 trades transacted within this period.	
Settlement	Cash settlement, payable on the first exchange day following the expiration day.	
Minimum block trade threshold	30 contracts	40 contracts
Bloomberg code	LXYA Index	LXAA Index
Reuters / Refinitiv code	0#FECX:	0#FGGI:

July 2022 | ARBN Number: Eurex Frankfurt AG ARBN 100 999 764

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## Contact

### EUREX FIXED INCOME SALES

Vassily Pascalis  
T +44-20-78 62-7211  
vassily.pascalis@eurex.com

### EUREX FIXED INCOME BUY-SIDE SALES UK

Ricky Maloney  
T +44-20-78 62-7316  
ricky.maloney@eurex.com

### FIXED INCOME DERIVATIVES PRODUCT DEVELOPMENT

Davide Masi  
T +44-20-78 62-7267  
davide.masi@eurex.com



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